

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 946 - HB 1213

April 12, 2019

SUMMARY OF BILL: Eliminates the 4.0 percent sales and use tax on the retail sale of food and food ingredients. Increases the cigarette tax rate from \$0.031 to \$0.0845 per cigarette. Increases the tax rate on all other tobacco products from 6.6 percent to 17.0 percent of the wholesale cost price.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$92,745,000

Decrease Local Revenue – Net Impact – \$327,856,800

Assumptions related to the sales tax on the retail sales of food and food ingredients:

- State sales tax collections derived from the retail sale of food and food ingredients totaled \$488,727,717 in FY17-18. Assuming growth rates of 2.50 percent in FY18-19 and 2.00 percent in FY19-20, such collections are estimated to be \$510,964,828 in FY19-20. This number is assumed to remain constant into perpetuity under current law.
- Pursuant to Tenn. Code Ann. § 67-6-702(a), local governments are authorized to levy a tax on the same privileges subject to the state sales tax rate. Elimination of the sales and use tax on the retail sale of food and food ingredients will also eliminate the local option sales tax.
- The current state sales tax rate on the retail sales of food and food ingredients is 4.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.0276 percent.
- Under current law, local revenue pursuant to the local option sales tax rate is estimated to be \$20,579,619 ($\$510,964,828 \times 4.0276\%$). Net state revenue is estimated to be \$490,385,209 ($\$510,964,828 - \$20,579,619$).
- Local revenue pursuant to the local option sales tax rate is estimated to be \$319,353,018 [$(\$510,964,828 / 4.00\%) \times 2.50\%$]. Total local revenue is estimated to be \$339,932,637 ($\$20,579,619 + \$319,353,018$).
- The recurring decrease in revenue is estimated to be \$490,385,209 for the state and \$339,932,637 for the local government.

Assumptions related to the cigarette tax:

- Pursuant to Tenn. Code Ann. § 67-4-1004(a) and Tenn. Code Ann. § 67-4-1004(d)(1), cigarette tax is a \$0.62 tax per pack of 20 cigarettes.
- Pursuant to Tenn. Code Ann. § 67-4-1004(b), there is an additional \$0.0005 enforcement and administration fee per pack of 20 cigarettes.
- The total taxes and fees currently imposed are \$0.6205 per pack of cigarettes.
- Cigarette tax collections totaled \$228,353,419 in FY17-18. Assuming growth rates of negative 2.08 percent in FY18-19 and negative 1.77 percent in FY19-20, based on recent trends, such collections are estimated to be \$219,645,883 in FY19-20.
- The total number of 20-pack cigarettes sold in FY19-20 is estimated to be 353,982,084 ($\$219,645,883 / \0.6205). This number is assumed to remain constant into perpetuity under current law.
- The average price per pack of 20 cigarettes in Tennessee is estimated to be \$5.00. Increasing the cigarette tax rate by \$1.07 per pack of 20 cigarettes [$(\$0.0845 - \$0.031) \times 20$], for a total tax of \$1.6905 per 20-pack ($\$0.6205 + \1.07), is estimated to increase the price of cigarettes to an average of \$6.07 per 20-pack for the consumer. This represents a 21.4 percent increase in the price of cigarettes [$(\$6.07 - \$5.00) / \$5.00$].
- Based on various studies, the price elasticity of demand for cigarettes is estimated to be negative 0.35. The 21.4 percent increase in the price of cigarettes is estimated to result in a 7.49 percent decrease in the quantity of cigarettes consumed ($21.4\% \times -0.35$).
- The number of 20-pack cigarettes sold each year upon passage of this legislation is estimated to be 327,468,826 [$353,982,084 \times (100.00\% - 7.49\%)$].
- The total recurring state tax collections upon passage of this legislation are estimated to be \$553,586,050 ($327,468,826 \times \1.6905). The recurring increase in state tax collections is estimated to be \$333,940,167 ($\$553,586,050 - \$219,645,883$).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The total taxable sales of cigarettes are expected to increase by \$217,825,354 as a result of this legislation [$(327,468,826 \times \$6.07) - (353,982,084 \times \$5.00)$].
- The recurring increase in state sales tax revenue is estimated to be \$14,696,263 [$(\$217,825,354 \times 7.0\%) - (\$217,825,354 \times 7.0\% \times 3.617\%)$].
- The recurring increase in local sales tax revenue is estimated to be \$5,997,146 [$(\$217,825,354 \times 2.5\%) + (\$217,825,354 \times 7.0\% \times 3.617\%)$].
- The total recurring increase in state revenue is estimated to be \$348,636,430 ($\$333,940,167 + \$14,696,263$).

Assumptions related to other tobacco products:

- Pursuant to Tenn. Code Ann. § 67-4-1005, the tax rate on all other tobacco products, including cigars, is 6.6 percent of the wholesale cost price.
- Cigar and other tobacco tax collections totaled \$19,721,028 in FY17-18. Assuming growth rates of 8.0 percent in FY18-19 and 8.0 percent in FY19-20, based on average

annual growth of the four previous fiscal years, such collections are estimated to be \$23,002,607 in FY19-20.

- Taxable sales under current law are estimated to be \$348,524,348 ($\$23,002,607 / 6.6\%$). This number is assumed to remain constant into perpetuity under current law.
- Based on information provided by the Department of Revenue, wholesale purchases of other tobacco products are estimated to decrease by 3.61 percent as a result of the tax rate increase to 17.0 percent.
- The recurring taxable sales are estimated to be \$335,942,619 [$\$348,524,348 \times (1 - 3.61\%)$]. The recurring state tax collections are estimated to be \$57,110,245 ($\$335,942,619 \times 17.0\%$).
- The recurring increase in state revenue is estimated to be \$34,107,638 ($\$57,110,245 - \$23,002,607$).

Assumptions related to the net impact:

- The net recurring decrease in state revenue is estimated to be \$107,641,141 ($\$490,385,209 - \$348,636,430 - \$34,107,638$).
- The net recurring decrease in local revenue is estimated to be \$333,935,491 ($\$339,932,637 - \$5,997,146$).
- Fifty percent of tax savings will be spent in the economy on non-food sales-taxable goods and services. Fifty percent of additional tax spending would have been spent under current law in the economy on non-food sales-taxable goods and services.
- Total tax savings as a result of this legislation is estimated to be \$441,576,632 ($\$107,641,141 + \$333,935,491$).
- Fifty percent of this amount, or \$220,788,316, will be spent in the economy on non-food sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on non-food sales-taxable goods and services is estimated to be \$14,896,168 [$(\$220,788,316 \times 7.0\%) - (\$220,788,316 \times 7.0\% \times 3.617\%)$].
- The total recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy on non-food sales-taxable goods and services is estimated to be \$6,078,722 [$(\$220,788,316 \times 2.5\%) + (\$220,788,316 \times 7.0\% \times 3.617\%)$].
- The net recurring decrease in state revenue as a result of this legislation is estimated to be \$92,744,973 ($\$107,641,141 - \$14,896,168$).
- The net recurring decrease in local revenue as a result of this legislation is estimated to be \$327,856,769 ($\$333,935,491 - \$6,078,722$).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

/jdb